

Message Text

SECRET

PAGE 01 NEW DE 03601 152257Z

62

ACTION SS-30

INFO OCT-01 ISO-00 /031 W

----- 114536

R 151815Z MAR 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 269

INFO AMEMBASSY THERAN

AMEMBASSY BEIRUT

AMEMBASSY LONDON

AMEMBASSY ISLAMABAD

AMEMBASSY JIDDAH

AMEMBASSY PARIS

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

S E C R E T NEW DELHI 3601

EXDIS

E.O. 11652: GDS

TAGS: ENG, IN

SUBJECT: ENERGY: INDIANS SECURE PRICE CONCESSIONS FROM IRAN
AND IRAQ

BEIRUT PASS BAGHDAD, PARIS FOR OECD

SUMMARY: GOI HAS REACHED TENTATIVE AGREEMENT WITH IRAN AND IRAQ
ON DEFERRED PAYMENTS FOR MORE THAN ONE QUARTER OF CRUDE IMPORTED
BY INDIA. WE ESTIMATE THAT GOI WOULD PAY INITIAL AMOUNT OF ONLY
ABOUT DOLS 3.50 PER BARREL WITH REMAINING COST TO BE SUBJECT
TO 5 YEAR 2 1/2 PERCENT PAYMENT TERMS AFTER 5 YEAR MORATORIUM.
ARRANGEMENT WILL SAVE GOI ABOUT DOLS 200 MILLION IN 1974
AND SUCCEEDING YEARS AND GOI HOPES TO EXTEND IT TO ADDITIONAL
CRUDE IMPORTS. END SUMMARY

1. LEADING GOI OFFICIAL WORKING ON PETROLEUM POLICY TOLD EMBOFF
THAT WHILE FINAL AGREEMENT HAD NOT BEEN SIGNED, GOI HAD SECURED
MAJOR CONCESSIONS AMOUNTING TO DOLS 250 MILLION PER YEAR FROM

SECRET

SECRET

PAGE 02 NEW DE 03601 152257Z

IRAN AND IRAQ. FORMULA HAD BEEN ADOPTED WHEREBY INDIA WOULD

NOMINALLY PAY PRICE IN EXCESS OF DOLS 11 PER BARREL BUT IN FACT WOULD PAY SUBSTANTIALLY LOWER PRICE IN CASH WITH DIFFERENCE TO BE OBTAINED ON CREDIT. AFTER FIVE YEAR MORATORIUM, GOI WOULD PAY DIFFERENCE OVER FIVE YEARS OAT 2 1/2 PERCENT INTEREST.

2. GOI OFFICIAL DECLINED TO GIVE EXACT CASH FIGURE GOI WOULD PAY BUT STATED THAT IT WAS "SUBSTANTIALLY LESS" THAN DOLS 7 FIGURE WHICH HAS BEEN PROMINENTLY DISCUSSED HERE. HE STATED THAT TOTAL SAVING WOULD BE ABOUT DOLS 250 MILLION PER YEAR FOR INDIA. (EMBASSY COMPUTATIONS BASED ON OFFICIAL'S REFERENCES TO QUANTITIES AND SAVINGS INDICATE THAT A PRICE OF ABOUT DOLS 3.50 PER BARREL MIGHT BE INVOLVED.)

3. OFFICIAL STATED THAT ARRANGEMENT APPLIES ANNUALLY TO 2.4 MILLION TONS (17.4 MILLION BARRELS) PURCHASED FROM NOIC AND AN UNDISCLOSED AMOUNT FROM IRAQ. (WE ESTIMATE LATTER AMOUNT TO BE 1.8 MILLION TONS (13.1 MILLION BARRELS) IN 1974). OFFICIAL NOTED THAT IRAQI ARRANGMENT WAS DIFFERENT IN FORM BUT HAD SAME EFFECT AS IRANIAN DEAL. (USING THESE NUMBERS, 4.2 MILLION TONS (30.5 MILLION BARRELS) AT DOLS 3.50 PER BARREL COMPARED TO A POSTED PRICE OF DOLS 11.50 PER BARREL YIELDS A "SAVINGS" APPROXIMATELY DOLS 250 MILLION PER YEAR.)

4. GOI OFFICIAL NOTED THAT PRICE CONCESSION DID NOT APPLY TO CRUDE IMPORTED FROM IRAN BY OIL COMPANIES. GOI INTENDED TO POINT OUT THIS "ANOMALY" AND SEEK EQUIVALENT PRICE CONCESSIONS FOR THESE IMPORTS. GOI HAD NOT YET OPENED DISCUSSIONS WITH SAUDI ARABIA.

5. GOI OFFICIAL STATED THAT IRANIAN NEGOTIATORS HAD SHOWN GOI COPIES OF SIMILAR ARRANGEMENT WITH PAKISTAN. HOWEVER, DOCUMENT INDICATED PAKISTAN WOULD PAY DOLS 1 MORE PER BARREL THAN INDIA, A DISCRIMINATORY PRICING POLICY WHICH HE (AND WE) FOUND DIFFICULT TO BELIEVE.

6. OFFICIAL STATED GOI HAPED TO HOLD 1974 CRUDE IMPORTS TO LESS THAN 1973 ACTUAL IMPORTS (13.9 MILLION TONS, OR 101.3 MILLION BARRELS) AND 1975 IMPORTS WOULD BE AT ABOUT 1973 LEVEL SINCE INDIAN CONSUMERS WOULD HAVE HAD OPPORTUNITY SWITCH TO COAL AND INTERNAL TRANSPORTATION SYSTEM WOULD HAVE BEEN ADOPTED TO ACCOMMODATE INCREASED COAL DEMAND.

SECRET

SECRET

PAGE 03 NEW DE 03601 152257Z

7. COMMENT: WHILE THE MAGNITUDE OF THE "CONCESSION" IS EXAGGERATED THROUGH USE OF THE POSTED PRICE AS A BASE, THIS ARRANGMENT REPRESENTS A REAL PRICE SAVING FOR GOI APPROACHING DOLS 200 MILLION. IF THE GOI SUCCEEDS IN EXTENDING TI TO OTHER CRUDES IT WILL SIGNIFICANTLY EASE INDIAN'S OVERALL BALANCE OF PAYMENTS DIFFICULTIES.

8. AS NOTED ABOVE, THE ARRANGEMENT MAINTAINS THE LEGAL FICTION WHEREBY ONLY ONE EXPORT PRICE IS CHANGED WHILE ALLOWING IRAN AND IRAQ TO MAKE CONCESSIONS AS THEY SEE FIT. ASSUMING THAT THE GOI USES THE 5 YEAR MORATORIUM TO BUILD UP ITS EXPORT POTENTIAL, REDUCE ITS USE OF CRUDE, AND DEVELOP ITS DOMESTIC SOURCES OF ENERGY INDIA SHOULD BE IN A POSITION TO BEGIN TO MAKE REPAYMENT 5 YEARS FROM NOW.

9. INDIAN OFFICIAL WAS UNABLE TO EXPLAIN REASON FOR IRANIAN/IRAQI ACCEPTANCE OF ALL ESSENTIAL ELEMENTS OF INDIAN POSITION. WE CANNOT BE SURE WHY IRAN AND IRAQ HAVE APPARENTLY DROPPED THEIR RELATIVELY HARD LINES ON PETROLEUM PRICES BUT CAN ONLY ASSUME THAT THIS IS A RESULT OF THE ECONOMIC INCENTIVES OFFERED BY INDIA. THE INDIAN OFFER TO ACCEPT THE HIGH POSTED PRICE AT A TIME WHEN OIL PRICES ARE SOFTENING ACCOMPANIED BY PROMISES OF SUPPLIES OF IRON ORE, BAUXITE AND OTHER COMMODITIES MAY HAVE BEEN SUFFICIENT TO CLINCH THE DEAL. EVEN IF PRICES SOFTEN THE DEFERRED PAYMENT ASPECTS STILL JUSTIFY THE ARRANGMENT AS SEEN FROM HERE. THE POLITICAL IMPLICATIONS ARE HARDER TO DECIPHER.

10. THIS INFORMATION HAS BEEN TIGHTLY HELD INSIDE THE GOI AND WE DO NOT WISH TO JEOPARDIZE OUR CONTACTS BY DISCLOSING KNOWLEDGE OF THIS ARRANGEMENT TO OTHER GOVERNMENTS. WE WOULD, HOWEVER, BE PREPARED TO PROBE FOR FURTHER DETAILS AFTER HAVING THE BENEFIT OF COMMENTS BY THE DEPARTMENT AND EMBASSY TEHRAN.

11. WE UNDERSTAND FROM THE BRITISH HERE THAT US EMBASSY TEHRAN HAS PICKED UP MUCH THE SAME VERSION OF THE TERMS ON WHICH INDIA WILL BE GETTING IRANIAN OIL AND THAT THE FINANCIAL TIMES (LONDON) CARRIED A STORY FEBRUARY 23 USING THE DOLS 3.50 FIGURE. THE SAME SOURCE HAS ALSO HEARD THAT IRANIAN INTEREST IN INDIA IS BASED MAINLY ON PROSPECTS FOR STRENGTHENING THE IRANIAN ECONOMIC IN PROCURING IRON ORE, CEMENT AND TEXTILES AND THAT
SECRET

SECRET

PAGE 04 NEW DE 03601 152257Z

THE IRANIANS HAVE TOLD THE PAKISTANIS THAT IF THEY CAN COME UP WITH SIMILAR ECONOMIC INCENTIVES FOR IRAN, THEY TOO WILL RECEIVE MOST FAVORED PRICE TERMS ON OIL.
SCHNEIDER

SECRET

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, AGREEMENTS, IMPORTS, PRICES, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974NEWDE03601
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740340/aaaablhj.tel
Line Count: 158
Locator: TEXT ON-LINE
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 24 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 APR 2002 by ifshinsr>; APPROVED <30 JAN 2003 by GolinoFR>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: INDIANS SECURE PRICE CONCESSIONS FROM IRAN AND IRAQ
TAGS: ENRG, IN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005